

Bay Area Municipal Transmission Group

January 23, 2004

Mr. Jim Keselburg
Regional Manager
Sierra Nevada Region
Western Area Power Administration
114 Parkshore Drive
Folsom, CA 95630

Re: Development of Mitigation Strategies to Address Potential Differential Rate Impacts on non-Direct Connect Customers

Dear Jim,

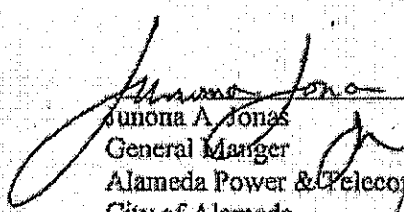
The Bay Area Municipal Transmission Group (BAMx), consisting of the electric utility systems for the cities of Alameda, Palo Alto and Santa Clara (Silicon Valley Power), wishes to convey a concern about potential cost shifts to non-direct connect Western customers alluded to by Western in its Proposed Decision on Operational Alternatives for Post-2004 as published in the Federal Register Notice (FRN) on December 2. BAMx agreed not to raise these concerns in its comments on the PRN, so as not to detract from the current operational alternative decision making process. BAMx appreciates Western's sensitivity to these potential rates issues noted by Western in the FRN and urges Western to develop mitigation strategies to address potential differential rate impacts on non-direct connect customers. Specifically,

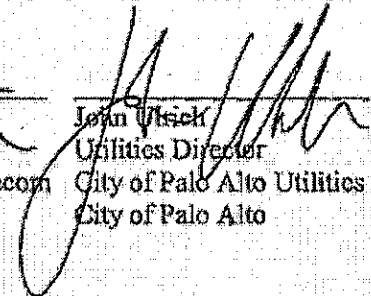
1. The Proposed Decision discusses the potential for significant cost-shifts to non-direct connects as compared to current costs under Contract No. 2948A. Western notes that it is considering alternatives to minimize potential cost shifts as part of its formal rates process. FRN page 67434.
2. The Proposed Decision also notes that the MD02 LMP proposal could result in differential rates for non-direct connects, which might not be consistent with Reclamation Law and policy and Western might need to develop mitigation strategies. FRN page 67433. As Western indicated in the Proposed Decision, the impacts of MD02 to Western's customers must be addressed. FRN page 67436.

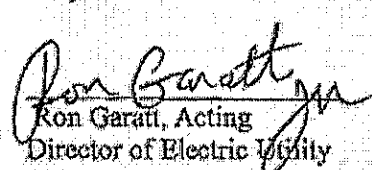
BAMx appreciates Western's recognition and sensitivity to these "significant cost increases to off-system loads" and considerations for equitable treatment to minimize such costs increases. BAMx urges Western to continue such recognition and equitably address these issues in its proposed rates for the Post 2004 Marketing Plan. We look forward to working with Western as it develops its Post- 2004 marketing plan and rates.

Sincerely,

BAY AREA MUNICIPAL TRANSMISSION GROUP (BAMx)


Junonia A. Jones
General Manager
Alameda Power & Telecom
City of Alameda

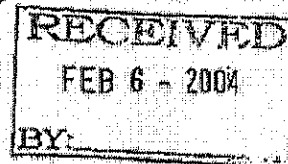

John Ulrich
Utilities Director
City of Palo Alto Utilities
City of Palo Alto


Ron Garatt, Acting
Director of Electric Utility
Silicon Valley Power
City of Santa Clara



Department of Energy
 Western Area Power Administration
 Sierra Nevada Customer Service Region
 114 Parkshore Drive
 Folsom, California 95630-4710

FEB 3 2004



Bay Area Municipal Transmission Group
 Mr. John Ulrich
 Utilities Director
 City of Palo Alto
 P.O. Box 10250
 Palo Alto, CA 94303

Date: 2-12-04	To: BOB BOCCIGNONE	From: GARISH PALADHARAN
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Dear Mr. Ulrich:

Thank you for your January 23, 2004, letter concerning the Western Area Power Administration's (Western) recognition of the need to develop mitigation strategies to address potential differential rate impact between the direct and non-direct connected customers to the Federal transmission system. Western shares your concern that a balanced and equitable approach to deal with this issue needs to be developed and expects to address it in its upcoming rate setting process scheduled to begin on or about March 2004.

We look forward to hearing your thoughts on this and other rate setting issues when Western moves forward to setting its rates for post-2004 operations. Thank you for your continuing interest in this very important matter. If we can be of any further assistance, please do not hesitate to contact us again.

Sincerely,

[Signature]
 James D. Keselburg
 Regional Manager

Identical Letter to:

Ms. Junona A. Jones
 General Manager
 Alameda Power & Telecom
 P.O. Box H
 Alameda, CA 94501-0263

Mr. Ron Garatt
 Acting Director of Electric Utility
 Silicon Valley Power
 1500 Warburton Avenue
 Santa Clara, CA 95050-3713